

REPORT OF
FINANCIAL EXAMINATION

**SCHUYLER COUNTY MUTUAL INSURANCE
COMPANY**

As Of
December 31, 2005



STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

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June 14, 2006
Queen City, MO

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Dear Sir:

In accordance with your financial examination warrant, a full scope financial examination has been made of the records, affairs and financial condition of

Schuyler County Mutual Insurance Company

hereinafter referred to as such or as the "Company." The Company's home office and principal place of business is located at Highway 63, Queen City, Missouri 63561; telephone number (660) 766-2505. This examination was conducted at the home office in Queen City, Missouri. The examination began May 16, 2006, and concluded June 14, 2006.

SCOPE OF EXAMINATION

Period Covered

The Company was last examined by the Missouri Department of Insurance in 2001, for the period ending December 31, 2000. The current examination covers the period from January 1, 2001, through December 31, 2005, and was conducted by an examiner from the Missouri Department of Insurance.

Procedures

This examination was conducted using the guidelines set forth by the practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri. Information provided by the Company's independent accountant was relied upon, including cash and securities confirmations, and the unearned premium calculation.

Comments – Previous Examination

The general comments and recommendations in the previous examination report and the subsequent action taken by the Company are listed below. There was only one comment in the prior examination report.

Comment: Outstanding Checks Policy

The Company should revise its policy regarding outstanding checks. The revised policy should ensure compliance with the state of Missouri's unclaimed property laws.

Company Response:

The Company responded on August 9, 2001, that their policy had been changed to comply with Missouri statutes and regulations.

Current Findings:

The policies have been revised and they are in compliance with current statutes and regulations.

HISTORY

General

The Company was organized in December 1877, as Farmers' Fire and Lightning Insurance Association of Schuyler County, Missouri. The name changed to Schuyler County Mutual Insurance Company on October 21, 1972. The Company operated without a charter from the time of its founding until 1980. At that time, the Company obtained a charter from the Secretary of State and voluntarily placed itself under the provisions of Sections 380.840 RSMo. It received a Certificate of Authority on February 5, 1980.

In 1985, the Company amended its Articles of Incorporation to comply with Sections 380.201 through 380.591 RSMo (Extended Missouri Mutual Companies). A new Certificate of Authority was issued effective January 1, 1985. On February 1, 2003 the Company amended its Articles of Incorporation to change from assessable to non-assessable.

Management and Control

A board of six directors provides oversight of the Company. Each director serves a three-year term with two elected each year. Directors are elected at annual member meetings held on the first Saturday in February. Special meetings of the members may be called by the Board of Directors at any time or upon petition of one-fourth of the members. Eight members constitute a quorum at annual member meetings. Absentee ballot voting is not permitted and members may not vote by proxy.

The Board of Directors consisted of the following members as of December 31, 2005:

<u>Name/Address</u>	<u>Occupation</u>	<u>Term</u>
C. Edwin Jackson, President RR 1 Box 26 Downing, MO 63536	Farmer	2004 to 2006

John C. Vandike, Vice-President RR 1 Box 66 Lancaster, MO 63548	Retired	2004 to 2007
Robert Slaughter RR 2 Box 8 Queen City, MO 63561	Retired	2004 to 2007
J. O. Kollar RR 2 Box 213 Greentop, MO 63546	Farmer	2005 to 2008
Mark Bushnell RR 1 Box 129A Queen City, MO 63561	Farmer	2005 to 2008
Gilbert Gosser RR 1 Box 184 Queen City, MO 63561	Deceased 12-21-05	2003 to 2006

In addition, Cathy Jennings is the Company's Secretary/Treasurer.

Conflict of Interest

Signed conflict of interest statements were obtained from all directors, employees and agents. These statements did not disclose any conflicting situations and no apparent conflicts of interest were identified during this examination.

Corporate Records

Articles of Incorporation, Bylaws, and minutes from the annual meetings and board meetings were reviewed. The Company is following the guidelines established in the Articles of Incorporation and Bylaws. The Board meeting minutes indicated that the Board is adequately informed regarding the Company's operations. The Board formally acknowledged the previous examination report during its July 12, 2001 meeting. Attendance at the Board and annual meetings appears to be satisfactory.

FIDELITY BOND AND OTHER INSURANCE

The Company has acted to help minimize the risk exposure of the business. The Company has a fidelity bond totaling \$100,000 from St. Paul Fire and Marine Insurance Company. This exceeds the minimum level recommended by the National Association of Insurance Commissioners for a company of this size. All of the Company's agents carry errors and omissions coverage. Directors and officers liability coverage, with an aggregate limit of \$2,000,000, is provided by MAMIC Mutual. The Company has a property and liability policy for its home office provided from Grinnell Mutual Reinsurance with limits of \$114,040 on the property and \$1,000,000 aggregate liability.

EMPLOYEE BENEFITS AND PENSION PLANS

The Company has two full time employees; an office manager and a bookkeeper. Benefits provided include a bonus plan based on the Company's profitability, paid holidays and increasing amounts of paid vacation. Sick leave is provided as needed. No insurance coverage is provided and the Company has no retirement plan. The Company pays the costs for continuing education requirements. Reimbursement for business related travel is also provided.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the Missouri Department of Insurance to operate under Sections 380.201 through 380.591 RSMo (Extended Missouri Mutual Companies). The Company is authorized to write fire, windstorm, and liability coverages throughout the state but writes primarily in Schuyler, Putnam, Adair and Scotland counties. Three agents produce business for the Company and receive a 12% commission on all new and renewal premiums. The Company advertises in local newspapers, radio and through various promotional activities in the community.

Policy Forms and Underwriting Practices

The Company uses policy forms from the American Association of Insurance Services (AAIS). Also, the Company has its own policy, SYL 20, which covers hazards due to weight of ice, snow or sleet on a dwelling. The Company issues continuously renewable policies. Inspections are performed by the agent and underwriting is performed by the office manager and bookkeeper (both are licensed agents). All new applications are reviewed by the Board of Directors.

Initial claim reviews are performed by one of the Company's own adjusters, which are two Board members and the office manager. The Company uses outside adjusters or inspectors on larger claims.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Admitted Assets	1,825,339	1,912,121	2,061,228	2,170,984	2,226,009
Liabilities	27,953	17,160	157,768	142,427	146,251
Gross Assessments	303,551	345,355	380,148	393,284	408,701
Losses Incurred	283,610	122,279	101,314	149,939	186,153
Investment Income	106,916	90,627	72,491	56,493	66,021
Underwriting Income	(1,824)	4,912	60,027	47,842	(14,908)
Net Income	108,526	97,575	139,421	97,997	51,201
Policies In Force	838	832	843	866	868

These figures are based on data from annual statements provided by the Company. Losses incurred do not reflect any reinsurance recoveries. These results indicate the Company is growing slightly in terms of premiums written and in the number of policies in force. Underwriting income has fluctuated although no sustained period of severe losses has occurred. The number of policies in force has shown a steady growth since the last exam.

REINSURANCE

Assumed

The Company does not assume any reinsurance.

Ceded

The Company has reinsurance through agreements with Grinnell Mutual Reinsurance Company. Various larger risks (those in excess of \$500,000-\$750,000) are covered through facultative agreements with Grinnell. The remaining in force business is covered by the following agreements:

Individual Occurrence of Loss Limit Reinsurance Agreement This contract provides that the Company retain the first \$50,000 of loss (wind or fire), each risk, each occurrence. The premium for this coverage is charged at a monthly rate based on the adjusted gross fire risk in force per \$1,000 at the end of each month during the contract year.

Aggregate Excess Reinsurance Agreement This is an unlimited aggregate excess of loss agreement with an attachment point that is calculated yearly. The premium for this coverage is charged at a monthly rate based on the adjusted gross fire risk in force per \$1,000 at the end of each month during the contract year.

One Hundred Percent (100%) Quota Share Liability Reinsurance Agreement This agreement cedes all of the Company's liability premium to the reinsurer, who in turn, pays all liability losses. The Company receives a ceding commission equal to 20% of the subject net written premiums.

One Hundred Percent (100%) Quota Share Earthquake Reinsurance Agreement This agreement cedes all the Company's earthquake insurance premium to the reinsurer, who in turn, is responsible for all earthquake losses. The Company's ceding commission is built into the formula of the premium that the Company pays.

ACCOUNTS AND RECORDS

The Company maintains financial records in both computerized and manual systems. Accounting records for premiums, claims and financial reporting are kept on a mutual insurance company software package from IMT, a software company in Des Moines, Iowa. A written claims register is also maintained as a backup to the computerized claims system. Cash transactions (premium receipts and checks written) are also manually recorded.

Overall, the Company's accounting system appears to be adequate to meet management and financial reporting requirements. A public accounting firm, Van de Ven, LLC, prepares the Company's financial statements, tax returns and annual statement. The annual statement was prepared on an accrual basis.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2005, and the result of operations for the year then ended. Any examination adjustments to the amounts reported in the annual statement and/or comments regarding such are made in the "Notes to the Financial Statements" which follow the financial statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only noted in the workpapers for each individual annual statement item.

ADMITTED ASSETS

Real Estate	28,288
Cash on Deposit	2,185,626
Accrued Interest Receivable	10,838
Asset Write Ins	1,257
Total Assets	\$ 2,226,009

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses Unpaid	\$ 3,009
Ceded Reinsurance Payable	12,923
Unearned Premium	130,319
Total Liabilities	\$ 146,251
Guaranty Fund	150,000
Other Surplus	1,929,758
Total Policyholder Surplus	\$ 2,079,758
Total Liabilities and Surplus	\$ 2,226,009

STATEMENT OF INCOME

Net Assessments (Premiums)	\$ 260,223
Reinsurance Commissions	17,928
Net Losses	(153,865)
Underwriting Expenses	(139,194)
Net Underwriting Income (Loss)	\$ (14,908)
Other Income	88
Net Investment Income	66,021
Net Income	\$ 51,201

CAPITAL AND SURPLUS ACCOUNT

Policyholder Surplus December 31, 2004	\$ 2,028,557
Net Income (reported by the Company)	51,201
Policyholder Surplus, December 31, 2005	\$ 2,079,758

NOTES TO FINANCIAL STATEMENTS

There are no notes to the financials.

EXAMINATION CHANGES

There are no examination changes made during this examination.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

There are no general comments or recommendations made during this examination.

SUBSEQUENT EVENTS

The Company and its reinsurer were named in a lawsuit that awarded a \$1.3 million settlement which is currently on appeal. The outcome is not known at this time.

ACKNOWLEDGMENT

The assistance and cooperation extended by the directors, officers and employees of the Schuyler County Mutual Insurance Company in the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)

) ss

County of St. Louis City)

I, Arthur Palmer, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiner finds reasonably warranted from the facts.



Arthur Palmer, CFE
Financial Examiner
Missouri Department of Insurance

Sworn to and subscribed before me this 15th day of June, 2006.

My commission expires:

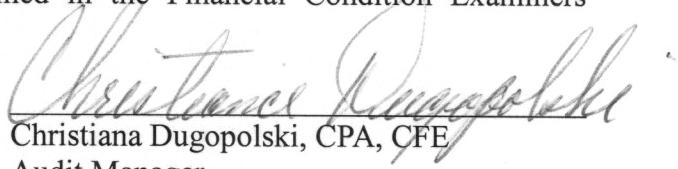
5/9/2009



JULIE KATSARAS
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires 5/9/2009
Commission # 05707910

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Christiana Dugopolski, CPA, CFE
Audit Manager
Missouri Department of Insurance

Schuyler County Mutual Insurance Company

Post Office Box 96
Queen City, Missouri 63561
(660)766-2505

August 2, 2006

Department of Insurance
PO Box 690
Jefferson City, MO 65102-0690

Dear Mr. Schmidt:

Regarding the Examination Report of Schuyler County Mutual Insurance Company for the period ending December 31, 2005, the only response that I feel needs attention is to the Subsequent Events on page 9. The lawsuit against our company and our reinsurance company pertains to a liability claim. As our liability is reinsured 100%, our company will not have to make any financial payment. We would like for this response to be included in the report as a public document.

Thank you.

SCHUYLER COUNTY MUTUAL INSURANCE COMPANY

Cathy Jennings
Cathy Jennings, Secretary/Treasurer

RECEIVED
AUG 04 2006
DIVISION
FINANCIAL REGULATION